

KENTUCKY RETIREMENT SYSTEMS  
AUDITED FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORTS  
June 30, 1999

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### INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Kentucky Retirement Systems  
Frankfort, Kentucky

We have audited the accompanying general purpose statements of plan net assets of the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 1999 and 1998 and the related statements of changes in plan net assets for the years then ended. These component unit general purpose financial statements are the responsibility of the Kentucky Retirement System's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the plan net assets of the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, at June 30, 1999 and 1998 and the changes in its plan net assets for the years then ended, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying supplemental schedules of funding progress and employer contributions, included on pages 29 through 44 and the notes thereto on page 45, are supplemental disclosures under Governmental Accounting Standards Board Statement No. 25. This supplementary information is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in our audits of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The supplemental schedule presented on pages 27 and 28 is presented for information purposes only. We have not audited or reviewed this information and, accordingly, do not express an opinion or any other form of assurance on it.

*Charles T. Mitchell Co.*

November 2, 1999

	1999		
	Pensions	Post-Employment Healthcare	Total
ASSETS			
Cash and short-term investments (Note C)	\$ 612,665	\$ 53,981	\$ 666,646
Receivables			
Investments - accounts receivable	9	10	19
Interest receivable - year end	40,199	3,208	43,407
Accounts receivable - year end	73,405	18,541	91,946
Accounts receivable - alternate plan	4,897		4,897
A/R - alternate plan - year end	334		334
Total receivables	118,845	21,759	140,603
Investments at fair value			
Corporate and government bonds	2,416,700	173,826	2,590,526
Corporate stocks	8,112,989	579,635	8,692,624
Mortgages	515,558	18,851	534,409
Real estate	479,790		479,790
Total investments at fair value	11,525,037	772,312	12,297,350
Securities lending collateral invested	1,043,883	65,058	1,108,941
Total assets	13,300,430	913,109	14,213,539
LIABILITIES			
Investments - accounts payable		106	106
Accounts payable	29,649	71	29,721
Securities lending collateral	1,043,883	65,058	1,108,941
Total liabilities	1,073,532	65,235	1,138,767
Plan net assets held in trust for pension benefits and post-employment benefits	<u>\$12,226,898</u>	<u>\$ 847,874</u>	<u>\$13,074,772</u>

(A schedule of funding progress for each plan is presented on pages 29 through 38.)

The accompanying notes are an integral part of these financial statements.

KENTUCKY RETIREMENT SYSTEMS  
 COMBINED STATEMENTS OF PLAN NET ASSETS  
 As of June 30, 1999 and 1998

Expressed In Thousands

1998		
<u>Pensions</u>	<u>Post-Employment Healthcare</u>	<u>Total</u>
\$ 628,526	\$ 52,472	\$ 680,998
128	13	141
35,069	2,248	37,317
48,762	9,029	57,791
6,063		6,063
412		412
90,434	11,290	101,724
1,870,930	127,754	1,998,684
7,295,596	448,102	7,743,698
517,572	28,947	546,519
160,765		160,765
9,844,863	604,803	10,449,666
1,292,359	126,257	1,418,616
11,856,182	794,822	12,651,004
19,321	290	19,611
1,292,359	126,257	1,418,616
1,311,680	126,547	1,438,227
<u>\$10,544,502</u>	<u>\$ 668,275</u>	<u>\$11,212,777</u>

	1999		
	Pensions	Post-Employment Healthcare	Total
ADDITIONS			
Members' contributions	\$ 274,864	\$	\$ 274,864
Employers' contributions	295,303	146,080	441,383
Total contributions	570,167	146,080	716,247
Investment Income:			
From investing activities			
Net appreciation in fair value of investments	1,358,855	67,147	1,426,002
Interest	191,982	13,907	205,889
Dividends	102,590	6,796	109,386
Real estate operating income (Net)	33,728		33,728
Total investing activities income	1,687,156	87,850	1,775,005
Investment expense	4,598	88	4,686
Net income from investing activities	1,682,557	87,762	1,770,319
From securities lending activities			
Securities lending income	67,407	8,059	75,466
Securities lending expense			
Security borrower rebate	64,900	7,759	72,659
Security lending agent fee	1,003	120	1,123
Net income from securities lending activities	1,505	180	1,685
Total net investment income	1,684,062	87,942	1,772,004
TOTAL ADDITIONS	2,254,230	234,022	2,488,252
DEDUCTIONS			
Benefit payments	393,582		393,582
Refunds	20,135		20,135
Administrative expenses	8,752	148	8,901
Healthcare premiums paid		54,276	54,276
Other deductions (Net)	146,616		146,616
TOTAL DEDUCTIONS	569,085	54,424	623,510
Net increase	1,685,144	179,598	1,864,742
Plan net assets held in trust for pension benefits and post-employment benefits			
Beginning of year	10,544,500	668,276	11,212,776
Prior period adjustment (Note J)	(2,746)		(2,746)
End of year	\$12,226,898	\$ 847,874	\$13,074,772

The accompanying notes are an integral part of these financial statements.

KENTUCKY RETIREMENT SYSTEMS  
COMBINED STATEMENTS OF CHANGES IN PLAN NET ASSETS  
For The Years Ended June 30, 1999 and 1998

Expressed In Thousands

1998		
<u>Pensions</u>	<u>Post-Employment Healthcare</u>	<u>Total</u>
\$ 167,789	\$	\$ 167,789
<u>287,619</u>	<u>94,802</u>	<u>382,421</u>
455,408	94,802	550,210
1,553,476	92,424	1,645,900
186,752	11,488	198,240
106,315	6,365	122,680
<u>22,743</u>		<u>22,743</u>
1,869,286	110,277	1,979,563
<u>5,391</u>	<u>84</u>	<u>5,475</u>
1,863,895	110,193	1,974,088
71,479	4,100	75,579
68,715	3,941	72,656
<u>1,105</u>	<u>62</u>	<u>1,167</u>
<u>1,659</u>	<u>97</u>	<u>1,756</u>
<u>1,865,554</u>	<u>110,290</u>	<u>1,975,844</u>
2,320,962	205,092	2,526,054
353,709		353,709
19,439		19,439
6,703		6,703
	50,270	50,270
<u>94,804</u>		<u>94,804</u>
<u>474,655</u>	<u>50,270</u>	<u>524,925</u>
1,846,307	154,822	2,001,129
8,698,195	513,453	9,211,648
<u>\$10,544,502</u>	<u>\$ 668,275</u>	<u>\$11,212,777</u>

	KERS HAZARDOUS	KERS NON-HAZARDOUS
ASSETS		
Cash and short-term investments		
Cash	\$	\$
Short-term investments	34,078	256,052
Total cash and short-term investments	34,078	256,052
Receivables		
Investments - accounts receivable		4
Interest receivable - year end	909	19,179
Accounts receivable - year end	2,069	32,023
Accounts receivable - alternate plan		
A/R - alternate plan - year end		
Total receivables	2,978	51,206
Investments at fair value		
Corporate and government bonds	57,433	1,135,735
Corporate stocks	159,754	3,932,630
Mortgages	10,443	254,970
Real estate	15,373	222,820
Total investments at fair value	243,003	5,546,156
Securities lending collateral invested	23,427	491,421
Total assets	303,487	6,344,835
LIABILITIES		
Investment - accounts payable		
Accounts payable	1,161	11,582
Securities lending collateral	23,427	491,421
Total liabilities	24,588	503,003
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 278,899	\$ 5,841,832

The accompanying notes are an integral part of these financial statements.



KENTUCKY RETIREMENT SYSTEMS  
COMBINING STATEMENTS OF PLAN NET ASSETS  
PENSION FUNDS  
June 30, 1999 and 1998

Expressed In Thousands

<u>CERS HAZARDOUS</u>	<u>CERS NON-HAZARDOUS</u>	<u>STATE POLICE</u>	<u>1999 TOTAL</u>	<u>1998 TOTAL</u>
\$ 74,762	\$ 234,378	\$ 13,395	\$ 612,665	\$ 628,526
74,762	234,378	13,395	612,665	628,526
1	3		9	128
3,955	14,930	1,226	40,199	35,069
8,413	29,933	968	73,405	48,762
2,546	2,351		4,897	6,063
182	153		334	412
15,097	47,369	2,194	118,845	90,434
243,155	913,644	66,733	2,416,700	1,870,930
798,862	2,930,593	291,150	8,112,989	7,295,596
50,139	183,736	16,269	515,558	517,572
51,617	172,373	17,607	479,790	160,765
1,143,773	4,200,346	391,759	11,525,037	9,844,863
105,635	388,069	35,331	1,043,883	1,292,359
1,339,267	4,870,162	442,679	13,300,430	11,856,182
7,474	8,678	754	29,649	19,321
105,635	388,069	35,331	1,043,883	1,292,359
113,109	396,747	36,085	1,073,532	1,311,680
<u>\$1,226,158</u>	<u>\$ 4,473,415</u>	<u>\$406,594</u>	<u>\$12,226,898</u>	<u>\$10,544,502</u>

	KERS HAZARDOUS	KERS NON-HAZARDOUS
ADDITIONS		
Members' contributions	\$ 8,323	\$ 141,399
Employers' contributions	19,444	107,515
Total contributions	27,766	248,914
INVESTMENT INCOME		
From Investing Activities		
Net appreciation in fair value of investments	27,750	657,775
Interest	5,325	90,021
Dividends	2,000	49,571
Real estate operating income (Net)	782	16,619
Total investing activity income	35,858	813,985
Investment expense	104	2,191
Net income from investing activities	35,754	811,795
From securities lending activities		
Securities lending income	967	33,191
Securities lending expense		
Security borrower rebates	931	31,956
Security lending agent fees	14	494
Net income from securities lending activities	22	741
Total net investment income	35,775	812,536
TOTAL ADDITIONS	63,542	1,061,450
DEDUCTIONS		
Benefit payments	5,037	204,302
Refunds	893	8,275
Administrative expenses	245	3,139
Other deductions (Net)	10,796	56,900
Total deductions	16,971	272,616
Net increase	46,571	788,834
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of Year	235,074	5,052,998
Prior Period Adjustment (Note J)	(2,746)	
End of year	\$ 278,899	\$ 5,841,832

The accompanying notes are an integral part of these financial statements

KENTUCKY RETIREMENT SYSTEMS  
COMBINING STATEMENTS OF CHANGES IN PLAN NET ASSETS  
PENSION FUNDS  
June 30, 1999 and 1998

Expressed In Thousands

<u>CERS HAZARDOUS</u>	<u>CERS NON-HAZARDOUS</u>	<u>STATE POLICE</u>	<u>1999 TOTAL</u>	<u>1998 TOTAL</u>
\$ 22,918	\$ 98,566	\$ 3,658	\$ 274,864	\$ 167,789
<u>48,291</u>	<u>110,591</u>	<u>9,463</u>	<u>295,303</u>	<u>287,619</u>
71,209	209,157	13,121	570,167	455,408
133,432	493,703	46,195	1,358,855	1,553,476
20,104	70,891	5,641	191,982	186,752
10,178	37,184	3,657	102,590	106,315
<u>3,137</u>	<u>11,879</u>	<u>1,311</u>	<u>33,728</u>	<u>22,743</u>
166,852	613,657	56,804	1,687,156	1,869,286
<u>474</u>	<u>1,676</u>	<u>153</u>	<u>4,598</u>	<u>5,391</u>
166,378	611,981	56,650	1,682,557	1,863,895
6,335	24,846	2,069	67,407	71,479
6,100	23,922	1,992	64,900	68,715
<u>94</u>	<u>370</u>	<u>31</u>	<u>1,003</u>	<u>1,105</u>
141	555	46	1,505	1,659
<u>166,520</u>	<u>612,536</u>	<u>56,696</u>	<u>1,684,062</u>	<u>1,865,554</u>
237,728	821,693	69,817	2,254,230	2,320,962
43,175	121,932	19,136	393,582	353,709
983	9,941	44	20,135	19,439
465	4,843	61	8,752	6,703
<u>23,553</u>	<u>48,067</u>	<u>7,299</u>	<u>146,616</u>	<u>94,804</u>
68,176	184,782	26,541	569,087	474,655
169,552	636,911	43,276	1,685,144	1,846,307
1,056,606	3,836,504	363,318	10,544,500	8,698,195
			(2,746)	
<u>\$1,226,158</u>	<u>\$ 4,473,415</u>	<u>\$406,594</u>	<u>\$12,226,898</u>	<u>\$10,544,502</u>

	KERS HAZARDOUS	KERS NON-HAZARDOUS
ASSETS		
Cash And short-term investments		
Cash	\$	\$
Short-term investments	<u>5,773</u>	<u>19,162</u>
Total cash And short-term investments	5,773	19,162
Receivables		
Investments - accounts receivable	1	4
Interest receivable - year end	313	1,218
Accounts receivable - year end	<u>934</u>	<u>4,871</u>
Total receivables	1,247	6,093
Investments, at fair value		
Corporate and government bonds	17,019	65,341
Corporate stocks	56,795	217,809
Mortgages	<u>1,814</u>	<u>7,076</u>
Total investments, at fair value	75,628	290,227
Security lending collateral invested	<u>6,695</u>	<u>23,691</u>
Total assets	89,343	339,173
LIABILITIES		
Accounts payable	10	44
Deferred premium	3	32
Securities lending collateral	<u>6,695</u>	<u>23,691</u>
Total liabilities	<u>6,708</u>	<u>23,767</u>
PLAN NET ASSETS - POSTEMPLOYMENT HEALTHCARE BENEFITS	<u>\$ 82,635</u>	<u>\$ 315,406</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND  
 COMBINING STATEMENTS OF PLAN NET ASSETS  
 POSTEMPLOYMENT HEALTHCARE  
 June 30, 1999 and 1998

Expressed In Thousands

<u>CERS HAZARDOUS</u>	<u>CERS NON-HAZARDOUS</u>	<u>STATE POLICE</u>	<u>1999 Total</u>	<u>1998 Total</u>
\$ 8,149	\$ 17,079	\$ 3,818	\$ 53,981	\$ 52,472
8,149	17,079	3,818	53,981	52,472
1	3	1	10	13
462	985	231	3,208	2,249
6,785	5,326	626	18,541	9,029
7,248	6,314	857	21,759	11,290
26,224	52,720	12,521	173,826	127,754
87,475	175,575	41,981	579,635	448,102
2,980	5,661	1,320	18,851	28,947
116,679	233,956	55,822	772,312	604,803
10,243	19,625	4,803	65,058	126,257
142,319	276,974	65,301	913,109	794,822
15	30	8	106	
19	15	2	71	290
10,243	19,625	4,803	65,058	126,257
10,277	19,670	4,813	65,235	126,547
<u>\$ 132,042</u>	<u>\$ 257,303</u>	<u>\$ 60,488</u>	<u>\$ 847,874</u>	<u>\$ 668,275</u>

	KERS Hazardous	KERS Non-Hazardous
ADDITIONS		
Employers' contributions	\$ 10,774	\$ 56,770
INVESTMENT INCOME		
From Investing Activities		
Net appreciation in fair value of investments	6,623	24,999
Interest	1,392	5,202
Dividends	656	2,542
Total income from investing activities	8,671	32,743
Investment activities expense		
Manager fees	9	33
Net income from investing activities	8,662	32,710
From securities lending activities		
Securities lending income	781	3,025
Securities lending expense:		
Security borrower rebates	752	2,912
Security lending agent fees	12	45
Net income from securities lending activities	17	68
Total net investment income	8,680	32,777
Total additions	19,454	89,547
DEDUCTIONS		
Healthcare premiums subsidies	1,284	24,481
Administrative fees	5	59
Total deductions	1,289	24,540
Net increase	18,165	65,007
PLAN NET ASSETS HELD IN TRUST FOR POSTEMPLOYMENT HEALTHCARE BENEFITS		
Beginning of year	64,470	250,399
End of year	\$ 82,635	\$ 315,406

The accompanying notes are an integral part of these financial statements.

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND  
COMBINING STATEMENTS OF CHANGES IN PLAN NET ASSETS  
POSTEMPLOYMENT HEALTHCARE  
June 30, 1999 and 1998

Expressed In Thousands

<u>CERS Hazardous</u>	<u>CERS Non-Hazardous</u>	<u>STATE Police</u>	<u>1999 Total</u>	<u>1998 Total</u>
\$ 23,383	\$ 47,902	\$ 7,252	\$ 146,080	\$ 94,802
10,290	20,193	5,041	67,147	92,424
2,088	4,215	1,011	13,907	11,488
1,060	2,025	513	6,796	6,365
<u>13,437</u>	<u>26,434</u>	<u>6,565</u>	<u>87,850</u>	<u>110,277</u>
<u>13</u>	<u>26</u>	<u>6</u>	<u>88</u>	<u>84</u>
13,424	26,407	6,559	87,762	110,193
1,243	2,414	595	8,059	4,100
1,197	2,324	573	7,759	3,941
18	36	9	120	62
<u>28</u>	<u>54</u>	<u>13</u>	<u>180</u>	<u>97</u>
<u>13,452</u>	<u>26,461</u>	<u>6,572</u>	<u>87,942</u>	<u>110,290</u>
36,835	74,363	13,824	234,022	205,092
8,272	17,492	2,747	54,276	50,270
25	52	7	148	
<u>8,297</u>	<u>17,544</u>	<u>2,754</u>	<u>54,424</u>	<u>50,270</u>
28,538	56,819	11,070	179,598	154,822
<u>103,504</u>	<u>200,484</u>	<u>49,418</u>	<u>668,276</u>	<u>513,453</u>
<u>\$ 132,042</u>	<u>\$ 257,303</u>	<u>\$ 60,488</u>	<u>\$ 847,874</u>	<u>\$ 668,275</u>

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO THE FINANCIAL STATEMENTS  
For The Years Ended June 30, 1999 and 1998

Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KRS) administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS). Although the assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan, in accordance with the provisions of Kentucky Revised Statute Sections 16.555, 61.570, and 78.630.

Under the provisions of Kentucky Revised Statute Section 61.701, the Board of Trustees of Kentucky Retirement Systems (KRS) administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by Kentucky Retirement Systems: (1) Kentucky Employees Retirement System (KERS); (2) County Employees Retirement System (CERS); and (3) State Police Retirement System (SPRS). KRS maintains separate accounting records for five insurance funds which also includes hazardous duty members of the Kentucky Employees and County Employees Retirement Systems. The assets of the various insurance funds are commingled for investment purposes. Legal counsel has advised there is no statutory authority to use the assets of one insurance fund to pay the liabilities of another insurance fund. The following notes apply to the various funds administered by Kentucky Retirement Systems.

**NOTE A. Summary of Significant Accounting Policies**

Basis of Accounting - KRS's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Premium payments are recognized when due and payable in accordance with terms of the plan.

Method Used to Value Investments - Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate is based on appraisals. Investments that do not have an established market are reported at estimated fair value.

Component Unit - Kentucky Retirement Systems is a component unit of the Commonwealth of Kentucky. As such, the Commonwealth of Kentucky is the primary government in whose financial reporting entity The System is included.

The Kentucky Employees Retirement System was created by the Kentucky General Assembly pursuant to the provisions of KRS 61.515. The County Employees Retirement System was created by the Kentucky General Assembly pursuant to the provisions of KRS 78.520. The State Police Retirement System was created by the Kentucky General Assembly pursuant to the provisions of KRS 16.510. The Kentucky Retirement Systems Insurance Fund was created by the Kentucky General Assembly pursuant to the provisions of KRS 61.701. The Retirement Systems' and Insurance Fund's administrative budget is subject to approval by the Kentucky General Assembly. Employer contribution rates for KERS and SPRS are also subject to legislative approval. Employer contribution rates for CERS are determined by the Systems' Board of Trustees without further legislative review. The methods used to determine the employer rates for all Retirement Systems are specified in KRS 61.565. Employee contribution rates are set by statute and may be changed only by the Kentucky General Assembly.

Expense Allocation - Administrative and investment expenses of the Kentucky Retirement Systems are allocated in proportion to the number of active members participating in each plan and the carrying value of plan investments, respectively.



KENTUCKY RETIREMENT SYSTEMS  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE B. Plan Descriptions and Contribution Information**

Membership of each Retirement plan consisted of the following at June 30, 1999 and 1998, the date of the latest actuarial valuation:

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	1998			1999		
	Non-Hazardous Position Employees	Hazardous Position Employees	Total	Non-Hazardous Position Employees	Hazardous Position Employees	Total
Number of Members						
Retirees and beneficiaries receiving benefits	20,955	671	21,626	21,941	780	22,721
Terminated plan members - vested	2,735	96	2,831	2,978	96	3,074
Terminated plan members - non-vested	10,294	443	10,737	11,512	516	12,028
Active plan members	46,342	3,582	49,924	45,824	3,889	49,713
Total	<u>80,326</u>	<u>4,792</u>	<u>85,118</u>	<u>82,255</u>	<u>5,281</u>	<u>87,536</u>
Number of participating employers			371			386

COUNTY EMPLOYEES RETIREMENT SYSTEM

	1998			1999		
	Non-Hazardous Position Employees	Hazardous Position Employees	Total	Non-Hazardous Position Employees	Hazardous Position Employees	Total
Number of Members						
Retirees and beneficiaries receiving benefits	18,986	2,392	21,378	20,687	2,704	23,391
Terminated plan members - vested	2,839	117	2,956	3,238	128	3,366
Terminated plan members - non-vested	17,243	280	17,523	19,347	331	19,678
Active plan members	71,426	6,800	78,226	74,151	7,488	81,639
Total	<u>110,484</u>	<u>9,589</u>	<u>120,073</u>	<u>117,423</u>	<u>10,651</u>	<u>128,074</u>
Number of participating employers			1,087			1,144

STATE POLICE RETIREMENT SYSTEM

	1998 Hazardous Position Employees	1999 Hazardous Position Employees
Number of Members		
Retirees and beneficiaries receiving benefits	739	762
Terminated plan members - vested	11	14
Terminated plan members - non-vested	69	72
Active plan members	954	985
Total	<u>1,773</u>	<u>1,833</u>
Number of participating employers	1	1

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

Hospital and medical contracts in force consisted of the following at June 30, 1999 and 1998, the date of the latest actuarial valuation:

	1998					1999				
	Single	Couple and Family	Parent +	Medicare Regular	Medicare High	Single	Couple and Family	Parent +	Medicare Regular	Medicare High
KERS Non-Hazardous	3,588	749	189	1,828	10,278	3,845	786	194	1,785	10,519
KERS Hazardous	169	155	22	27	283	213	154	28	34	335
CERS Non-Hazardous	2,854	696	142	1,918	7,131	3,298	704	141	1,988	7,618
CERS Hazardous	553	1,157	159	21	450	671	1,173	148	22	528
SPRS	151	376	34	4	225	161	349	29	5	252
Totals	7,315	3,133	546	3,798	18,367	8,188	3,164	539	3,834	19,252

**NOTE B. Plan Descriptions and Contribution Information (Continued)**

**KENTUCKY EMPLOYEES RETIREMENT SYSTEM**

**Non-Hazardous Employees Pension Plan**

Plan Description - KERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of any state department, board, or agency directed by Executive Order to participate in the System. The plan provides for retirement, disability, and death benefits to plan members.

Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed five percent in any plan year. The General Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgement the welfare of the Commonwealth so demands.

Contributions - For the years ended June 30, 1999 and 1998, plan members were required to contribute 5% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the years ended June 30, 1999 and 1998, the State contributed 8.03% and 8.89%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 1999 and 1998 was 8.03% and 8.89%, respectively, of creditable compensation. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

**Hazardous Employees Pension Plan**

Plan Description - KERS is a cost-sharing multiple-employer defined benefit pension plan that cover substantially all regular full-time members employed in hazardous duty positions of any state department, board, or agency directed by Executive Order to participate in the System.

The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed five percent in any plan year. The General Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgement the welfare of the Commonwealth so demands.

Contributions - For the years ended June 30, 1999 and 1998, plan members were required to contribute 7% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the years ended June 30, 1999 and 1998, the State contributed 18.66% and 17.87%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 1999 and 1998 was 18.66% and 17.87%, respectively, of creditable compensation. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

**NOTE B. Plan Descriptions and Contribution Information (Continued)**

**COUNTY EMPLOYEES RETIREMENT SYSTEM**

**Non-Hazardous Employees Pension Plan**

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the State legislature.

Contributions - For the years ended June 30, 1999 and 1998, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the years ended June 30, 1999 and 1998, participating employers contributed 8.22% and 8.65%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 1999 and 1998 was 8.22% and 8.65%, respectively, of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

**Hazardous Employees Pension Plan**

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the State legislature.

Contributions - For the years ended June 30, 1999 and 1998, plan members were required to contribute 8% and 7%, respectively, of their annual creditable compensation. The participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the years ended June 30, 1999 and 1998, participating employers contributed 18.85% and 18.69%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 1999 and 1998 was 18.85% and 18.69%, respectively, of creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

**NOTE B. Plan Descriptions and Contribution Information (Continued)**

**STATE POLICE RETIREMENT SYSTEM**

Plan Description - SPRS is a single-employer defined benefit pension plan that covers all full-time State Troopers employed in a hazardous duty position by the Kentucky State Police. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the State legislature.

Contributions - For the years ended June 30, 1999 and 1998, plan members were required to contribute 8% and 7%, respectively, of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the years ended June 30, 1999 and 1998, the State contributed 23.41% and 26.58%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 1999 and 1998 was 23.41% and 26.58%, respectively, of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

**KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND**

Plan Description - The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System (Systems). The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the year insurance premiums withheld from benefit payments to members of the Systems approximated \$13,266,592 and \$217,359 for KERS and KERS hazardous, respectively, \$12,691,769 and \$918,544 for CERS and CERS hazardous, respectively, and \$228,855 for SPRS. The Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As of June 30, 1999 the Fund had 46,874 retirees and beneficiaries for whom benefits were available.

The amount of contribution paid by the Fund is based on years of service with the Systems. Years of service and respective percentages of the maximum contribution are as follows:

<u>Years of Service</u>	<u>Percent Paid by Insurance Fund</u>
20 or More	100%
15 - 19	75%
10 - 14	50%
4 - 9	25%
Less Than 4	0%

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20-year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed.

In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years. The increases commenced with the 1997 valuation and adjustments will be made every other valuation year to coincide with the valuation used by the General Assembly to establish employer contribution rates for the biennium.

KENTUCKY RETIREMENT SYSTEMS  
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**NOTE C. Cash and Short-Term Investments and Securities Lending Collateral**

The provisions of Governmental Accounting Standards Board Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions" require that cash received as collateral on securities lending transactions and investments made with that cash be reported as assets on the financial statements. In conjunction with the adoption of Governmental Accounting Standard No. 28, the System has reclassified certain other investments, not related to the securities lending program, as short-term. Cash and short-term investments consist of the following:

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	<u>1999</u>	<u>1998</u>
Cash, uninsured, unregistered & uncollateralized	\$	\$
Miscellaneous cash	19	26
Repurchase agreements purchased with cash collateral	514,848,170	637,398,014
Other repurchase agreements	<u>290,129,980</u>	<u>320,504,398</u>
Total	<u>\$804,978,169</u>	<u>\$957,902,438</u>

COUNTY EMPLOYEES RETIREMENT SYSTEM

	<u>1999</u>	<u>1998</u>
Cash, uninsured, unregistered & uncollateralized	\$	\$
Repurchase agreements purchased with cash collateral	493,703,282	611,219,986
Other repurchase agreements	<u>309,139,606</u>	<u>290,361,870</u>
Total	<u>\$802,842,888</u>	<u>\$901,581,856</u>

STATE POLICE RETIREMENT SYSTEM

	<u>1999</u>	<u>1998</u>
Cash, uninsured, unregistered & uncollateralized	\$	\$
Repurchase agreements purchased with cash collateral	35,331,254	43,741,189
Other repurchase agreements	<u>13,395,174</u>	<u>17,659,892</u>
Total	<u>\$ 48,726,428</u>	<u>\$ 61,401,081</u>

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

	<u>1999</u>	<u>1998</u>
Cash, uninsured, unregistered & uncollateralized	\$	\$
Repurchase agreements purchased with cash collateral	65,057,846	126,256,825
Other repurchase agreements	<u>53,980,841</u>	<u>52,472,040</u>
Total	<u>\$119,038,686</u>	<u>\$178,728,865</u>

**NOTE D. Investments**

The Board of Trustees of the Retirement Systems and Insurance Fund give priority to the investment of funds in obligations considered to improve the industrial development and enhance the economic welfare of the Commonwealth. The Board enters into contracts with investment managers who use the following guidelines and restrictions in the selection and timing of transactions as long as the security is not prohibited by the Kentucky Revised Statutes.

Equity Investments - Investments may be made in common stocks, securities convertible into common stocks and in preferred stocks of publicly traded corporations.

Fixed Income Investments - Publicly traded bonds are to be selected and managed to assure an appropriate balance in quality and maturities consistent with the current market and economic conditions. Investment may be made in any debt instrument issues by the U.S. Government or an agency of the U.S. Government.

Mortgages - Investment may be made in real estate mortgages on a direct basis or in the form of mortgage pool instruments guaranteed by an agency of the U.S. Government or the Commonwealth of Kentucky.

Equity Real Estate - Investments may be made for the purpose of creating a diversified portfolio of income-producing properties with moderate to low levels of risk.

Mutual Fund Investments - Investments may be made in mutual funds which hold common stocks or fixed income securities.

Cash Equivalent Securities - The following short-term investment vehicles, excluding commercial paper which requires specific purchase approval by the Investment Committee of Kentucky Retirement Systems, are considered acceptable:

- Securities Purchased Under Agreement to Resell - Repurchase agreements which are collateralized by U.S. Government securities.
- U.S. Government Issues - All obligations of the U.S. Government and its agencies.

The Retirement Systems' and Insurance Fund's investments are categorized below to give an indication of the level of risk assumed by them at June 30, 1999 and 1998. Category 1 includes investments that are either insured or registered or for which the investments are held by The System or its agent in the System's name. Category 3 includes securities purchased by and held by the System's custodial agent. The agent loans securities owned by the Systems and Fund with the simultaneous receipt of cash collateral. The custodial agent purchases securities with the cash collateral in accordance with the Systems' and Fund's *Statement of Investment Policy*. All securities purchased with cash collateral are segregated by the custodial agent and held in the name of Kentucky Retirement Systems.

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE D. Investments (Continued)**

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	1999			
	Category 1	Category 2	Category 3	Market Value
Investments - Categorized				
U.S. Government Securities	\$ 242,152,177	\$	\$	\$ 242,152,177
Loaned for securities collateral	24,594,020			24,594,020
Corporate bonds	426,849,282			426,849,282
Loaned for securities collateral	9,303,041			9,303,041
Corporate stocks	4,085,771,726			4,085,771,726
Loaned for securities collateral				
Repurchase agreements	\$ 290,129,980		514,848,170	804,978,150
Subtotal	<u>\$5,078,800,226</u>		<u>\$514,848,170</u>	5,593,648,395
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				375,081,635
Corporate bonds				113,997,330
Corporate stocks				6,612,613
Mortgages				265,295,392
Real Estate Investment				<u>238,193,165</u>
Total Investments				<u>\$6,592,828,530</u>

	1998			
	Category 1	Category 2	Category 3	Market Value
Investments - Categorized				
U.S. Government Securities	\$ 85,912,514	\$	\$	\$ 85,912,514
Loaned for securities collateral	1,235,712			1,235,712
Corporate bonds	500,838,669			500,838,669
Loaned for securities collateral	5,869,561			5,869,561
Corporate stocks	3,383,570,871			3,383,570,871
Loaned for securities collateral	3,498,944			3,498,944
Repurchase agreements	<u>320,504,398</u>		<u>637,398,014</u>	<u>957,902,412</u>
Subtotal	<u>\$4,301,430,669</u>	<u>\$ 0</u>	<u>\$637,398,014</u>	4,938,828,683
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				305,163,807
Corporate bonds				12,024,325
Corporate stocks				283,935,621
Mortgages				268,124,521
Real Estate Investment				<u>90,677,806</u>
Total Investments				<u>\$5,898,754,763</u>

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE D. Investments (Continued)**

COUNTY EMPLOYEES RETIREMENT SYSTEM

	1999			Market Value
Investments - Categorized	Category 1	Category 2	Category 3	
U.S. Government Securities	\$ 236,385,152	\$	\$	\$ 236,385,152
Loaned for securities collateral	24,811,038			24,811,038
Corporate bonds	398,550,824			398,550,824
Loaned for securities collateral	8,873,346			8,873,346
Corporate stocks	3,723,130,806			3,723,130,806
Loaned for securities collateral				
Repurchase agreements	309,139,606		493,703,282	802,842,888
Subtotal	<u>\$4,700,890,772</u>	<u>\$</u>	<u>\$493,703,282</u>	5,194,594,053
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				378,391,350
Corporate bonds				108,731,950
Corporate stocks				6,324,547
Mortgages				233,763,883
Real Estate Investment				223,990,064
Total Investments				<u>\$6,145,795,847</u>

	1998			Market Value
Investments - Categorized	Category 1	Category 2	Category 3	
U.S. Government Securities	\$ 80,261,963	\$	\$	\$ 80,261,963
Loaned for securities collateral	1,508,416			1,508,416
Corporate bonds	422,639,389			422,639,389
Loaned for securities collateral	7,544,586			7,544,586
Corporate stocks	3,094,373,368			3,094,373,368
Loaned for securities collateral	3,251,052			3,251,052
Repurchase agreements	290,361,870		611,219,986	901,581,856
Subtotal	<u>\$3,899,940,644</u>	<u>\$ 0</u>	<u>\$611,219,986</u>	4,511,160,630
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				372,509,015
Corporate bonds				15,455,763
Corporate stocks				263,819,421
Mortgages				232,492,567
Real Estate Investment				62,941,658
Total Investments				<u>\$5,458,379,054</u>



KENTUCKY RETIREMENT SYSTEMS  
NOTES TO THE FINANCIAL STATEMENTS  
For The Years Ended June 30, 1999 and 1998

**NOTE D. Investments (Continued)**

STATE POLICE RETIREMENT SYSTEM

	1999			
	Category 1	Category 2	Category 3	Market Value
Investments - Categorized				
U.S. Government Securities	\$ 9,749,046	\$	\$	\$ 9,749,046
Loaned for securities collateral	1,323,612			1,323,612
Corporate bonds	28,997,615			28,997,615
Loaned for securities collateral	482,462			482,462
Corporate stocks	290,677,204			290,677,204
Loaned for securities collateral				
Repurchase agreements	13,395,174		35,331,254	48,726,428
Subtotal	<u>\$ 344,625,113</u>	<u>\$</u>	<u>\$ 35,331,254</u>	379,956,367
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				20,186,319
Corporate bonds				5,911,977
Corporate stocks				472,503
Mortgages				16,261,447
Real Estate Investment				17,607,157
Total Investments				<u>\$ 440,395,769</u>

	1998			
	Category 1	Category 2	Category 3	Market Value
Investments - Categorized				
U.S. Government Securities	\$ 5,449,379	\$	\$	\$ 5,449,379
Loaned for securities collateral	65,541			65,541
Corporate bonds	34,063,625			34,063,625
Loaned for securities collateral	384,215			384,215
Corporate stocks	243,804,164			243,804,164
Loaned for securities collateral	235,444			235,444
Repurchase agreements	17,659,892		43,741,189	61,401,081
Subtotal	<u>\$ 301,662,260</u>	<u>\$ 0</u>	<u>\$ 43,741,189</u>	346,403,449
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				16,185,636
Corporate bonds				787,100
Corporate stocks				19,106,053
Mortgages				16,848,219
Real Estate Investment				7,146,548
Total Investments				<u>\$ 405,477,005</u>

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE D. Investments (Continued)**

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

	1999			
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Market Value</u>
Investments - Categorized				
U.S. Government Securities	\$ 4,166,187	\$	\$	\$ 4,166,187
Loaned for securities collateral	5,139,909			5,139,909
Corporate bonds	83,889,167			83,889,167
Loaned for securities collateral	150,474			150,474
Corporate stocks	578,531,895			578,531,895
Loaned for securities collateral				
Repurchase agreements	<u>53,980,841</u>	<u></u>	<u>65,057,846</u>	<u>119,038,686</u>
Subtotal	<u>\$ 725,858,473</u>	<u>\$</u>	<u>\$ 65,057,846</u>	<u>790,916,318</u>
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				78,388,388
Corporate bonds				1,843,881
Corporate stocks				1,102,959
Mortgages				<u>18,851,152</u>
Total Investments				<u>\$ 891,102,698</u>

	1998			
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Market Value</u>
Investments - Categorized				
U.S. Government Securities	\$ 109,636	\$	\$	\$ 109,636
Loaned for securities collateral	224,531			224,531
Corporate bonds	66,216,167			66,216,167
Loaned for securities collateral	1,828,322			1,828,322
Corporate stocks	400,901,688			400,901,688
Loaned for securities collateral	574,560			574,560
Repurchase agreements	<u>52,472,040</u>	<u></u>	<u>126,256,826</u>	<u>178,728,866</u>
Subtotal	<u>\$ 522,326,944</u>	<u>\$ 0</u>	<u>\$126,256,826</u>	<u>648,583,770</u>
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				55,448,732
Corporate bonds				3,745,482
Corporate stocks				46,624,939
Mortgages				<u>28,943,569</u>
Total Investments				<u>\$ 783,346,492</u>

**NOTE E. Securities Lending Transactions**

Kentucky Revised Statutes Sections 61.650 and 386.020(2) permit the Systems to lend their securities to broker-dealers and other entities. The borrowers of the securities agree to return the same securities at a later date and, to transfer to the Systems' custodial bank either cash or other securities with a value equal to 102 percent of the value of the borrowed securities. Securities lent for cash collateral are presented as unclassified above in the schedule of custodial credit risk; securities lent for securities collateral are classified according to the category for the collateral. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The contract with the System's custodial bank requires it to indemnify the System as follows:

- If the bank fails to make a reasonable determination of the creditworthiness of any borrower to whom loans are made and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with either (i) securities identical to the loaned securities, or (ii) cash, in an amount equal to the market value of the loaned securities on the business day such securities or cash is credited to the account, and shall credit the account with all monies and other distributions paid upon such loaned securities (or the cash equivalent thereof) which are not returned by such borrower.
- If the bank makes a reasonable determination of the creditworthiness of any borrower to whom loans are made but fails to properly perform its mark-to-market obligations and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with securities identical to loaned securities or cash, in an amount equal to the sum of (i) the difference between the amount of the collateral the bank should have received pursuant to the securities borrowing agreement and the amount of collateral actually received, (ii) five percent of the market value of the loaned securities on the business day such securities or cash is credited to the account, and (iii) all monies and other distributions paid upon such loaned securities (or cash equivalent thereof) which are not returned by such borrower.
- If the bank makes a reasonable determination of the creditworthiness of any borrower to whom loans are made and properly performs its mark-to-market obligations hereunder and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with securities identical to loaned securities or cash, in an amount equal to the sum of (i) five percent of the market value of the loaned securities on the business day such securities or cash is credited to the account, and (ii) all monies and other distributions paid upon such loaned securities (or the cash equivalent thereof) which are not returned by the borrower.

All securities loans can be terminated on demand by either the Systems or the borrower, although the average term of the loans is one day. Cash collateral is invested in securities which are permitted for investment by state statute and Board policy, which at year-end has a weighted-average maturity of three days for its regular account and two days for its index account. The System cannot pledge or sell collateral securities received unless the borrower defaults.

**NOTE F. Risks of Loss**

The Systems are exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Under the provisions of the Kentucky Revised Statutes, the Kentucky Board of Claims is vested with full power and authority to investigate, hear proof, and to compensate persons for damages sustained to either person or property as a result of negligence of the agency or any of its employees. Awards are limited to \$100,000 for a single claim and \$250,000 in aggregate per occurrence. Awards and a pro rata share of the operating cost of the Board of Claims are paid from the fund of the agency having a claim or claims before the Board.

**NOTE F. Risks of Loss (Continued)**

Claims against the Board of Trustees of Kentucky Retirement Systems or any of its staff as result of actual or alleged breach of fiduciary duty are insured with a commercial insurance policy. Coverage provided is limited to \$5,000,000 with a deductible amount of \$25,000. Defense costs incurred in defending such claims will be paid by the insurance company. However, the total defense cost and claims paid shall not exceed the total aggregate coverage of the policy.

Claims for job-related illnesses or injuries to employees are insured by the state's self-insured workers compensation program. Payments approved by the program are not subject to maximum limitations. A claimant may receive reimbursement for all medical expenses related to the illness or injury and up to sixty-six and two-thirds percent (66⅔%) of wages for temporary disability. Each agency pays premiums based on fund reserves and payroll.

Only claims pertaining to workers' compensation have been filed during the past three fiscal years. Settlements did not exceed insurance coverage in any of the past three fiscal years. There were no claims which were appealed to the Kentucky Workers Compensation Board.

**NOTE G. Contingencies**

In the normal course of business, the Retirement Systems and Insurance Fund are involved in various litigation concerning the right of participants or their beneficiaries to receive benefits. The System does not anticipate any material losses as a result of the contingent liabilities.

**NOTE H. Income Tax Status**

The Internal Revenue Service has ruled that the Plan qualifies under Section 401(a) of the Internal Revenue Code and is, therefore, not subject to tax under income tax law.

**NOTE I. E.E.O.C. v. Kentucky State Police, et.al.**

The U.S. Equal Employment Opportunity Commission filed suit against the Kentucky State Police charging mandatory retirement of state police officers at age 55 is not a bona fide occupational qualification and thus violates the U.S. Age Discrimination in Employment Act. The suit demanded that all former State Police officers involved be reinstated to their former positions and be made whole with full back-pay and benefits. Kentucky Retirement Systems entered the lawsuit as a third party demanding that if the officers were reinstated they would return retirement benefits paid them, return insurance premiums paid on their behalf, and pay retirement contributions that would have been due had they remained employed. Kentucky Retirement Systems also demanded that the Kentucky State Police pay employer contributions that would have been due had the officers remained employed. The officers were allowed to re-retire with increased retirement benefits calculated from the end of the reinstatement period to each individual officer's date of death or December 31, 1986. The U.S. Age Discrimination Act was amended to again make age a bona fide occupational qualification for hazardous duty jobs effective January 1, 1987.

As a result of final judgment being entered in the case on June 30, 1997, \$9,321,380 and \$307,706 was received respectively by the State Police Retirement System and the State Police Insurance Fund on June 30, 1997. Back pay resulting from increased retirement benefits in the amount of \$11,135,748 has been included in accounts payable as of June 30, 1997. Actual payments to plaintiffs in the case were made in the fiscal year ending June 30, 1998.

**NOTE J. PRIOR PERIOD ADJUSTMENT**

Certain errors resulting in an overstatement of previously reported investment gains were discovered in the current year. Accordingly, a net adjustment of \$2,745,781 was made during the current year to reduce previously reported Plan Net Assets.

KENTUCKY RETIREMENT SYSTEMS  
REQUIRED SUPPLEMENTARY INFORMATION  
DISCLOSURES ABOUT YEAR 2000 ISSUES  
For The Year Ended June 30, 1999

Kentucky Retirement Systems had no amounts contracted as of June 30, 1999 to address year 2000 issues. However, twenty percent of the agency's information technology staff was assigned exclusively to testing computer programs as of June 30. An additional twenty-five percent of available staff was assigned to this project shortly thereafter.

All financial records and retirement records are maintained on a mid-range computer system owned by KRS and maintained by KRS staff. This system is also used to calculate retirement benefits due each member at the time of retirement. Individual users communicate with the mid-range system via personal workstations located in each office. There are three systems considered "Mission Critical" in order for KRS to function. A brief description of each system follows:

- Retired Payroll - This system is used to generate monthly benefit payments to approximately 46,000 members that have previously retired from KERS, CERS, or SPRS.
- Investment System - This system is used to record all investment transactions and calculate the performance of the investment portfolio of each retirement system and insurance fund.
- Daily Cash Statement - This system is used to track cash inflow and outflow in order to determine the net cash available for investment on a daily basis.

Program modification and testing was completed for all "Mission Critical" systems prior to June 30, 1999.

The following stages describe the overall status of the year 2000 project:

Awareness Stage

All computer systems and equipment controlled electronically were evaluated for year 2000 issues. The purpose of the evaluation was to determine which systems required replacement or modification, whether the work would be done by agency staff or outside contractors, funds needed to complete the project, and schedules for completion for various phases of the project.

Systems found to be deficient included the telephone system, operating systems on some personal work stations, the operating system which runs the optical disk system, files residing on the mid-range system, and programs running on the mid-range system. The telephone system was scheduled for replacement. It would be necessary for a contractor to complete this work at a cost of \$100,000. It was also necessary for a contractor to modify the optical disk operating system at a cost of \$55,000. Deficient personal work stations would be made compliant through the agency's scheduled upgrade program which replaces twenty-five percent of the inventory annually.

Assessment Stage

A complete inventory of all files and programs residing on the mid-range system was done in July 1997 and again in November 1998 to assure completeness. A risk analysis was also performed in order to assure that all "Mission Critical" systems would receive the highest priority and be operational in year 2000. The inventory revealed 817 files, 1,304 programs, and 1,861 command language procedures needed review for year 2000 standards.

A project schedule was established with conversion procedures designated as **Phase 1** of the project and testing procedures designated as **Phase 2** of the project. Phase 1 was scheduled to start November 18, 1998 and be completed by March 31, 1999. Phase 2 was assigned an April 1, 1999 beginning date with a completion date of June 30, 1999.

Remediation Stage

The telephone system and all deficient personal workstations were replaced in July 1998. The operating system for the optical disk system was converted in May 1999. Phase 1 of the project to convert in-house files and programs was completed on schedule.

KENTUCKY RETIREMENT SYSTEMS  
REQUIRED SUPPLEMENTARY INFORMATION  
DISCLOSURES ABOUT YEAR 2000 ISSUES CONTINUED  
For The Year Ended June 30, 1999

Validation/Testing Stage

Testing of programs and files for the mid-range system was under way as of June 30, 1999 but running approximately six weeks behind schedule due to unforeseen problems. All problems were corrected and completion date revised from June 30, 1999 to August 31, 1999, well in advance of January 1, 2000. The contractor who converted the optical disk operating system tested the system for year 2000 issues at the time of conversion.

The foregoing procedures are designed to give reasonable assurance of computer systems and other electronic equipment continuing to function in the year 2000. Kentucky Retirement Systems does not represent computer systems or other electronic equipment to be year 2000 compliant. It is fully anticipated that there will be problems with systems and equipment attributable to the year 2000 issue. However, it is also anticipated any problems encountered will be corrected in a reasonable period and none will threaten life or the ability to continue monthly benefits to KRS members.

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)
<u>Non-Hazardous</u>			
June 30, 1994	2,637,660,362	2,809,545,625	171,885,263
June 30, 1995	2,872,020,193	3,112,989,384	240,969,191
June 30, 1996	3,237,983,129	3,295,362,361	57,379,232
June 30, 1997	3,683,995,005	3,463,047,650	(220,947,355)
June 30, 1998	4,356,072,625	3,800,014,746	(556,057,879)
June 30, 1999	5,264,340,397	4,327,622,821	(936,717,576)
<u>Hazardous</u>			
June 30, 1994	91,388,625	102,504,650	11,116,025
June 30, 1995	111,793,345	127,862,904	16,069,559
June 30, 1996	137,312,448	120,042,122	(17,270,326)
June 30, 1997	166,717,238	140,918,460	(25,798,778)
June 30, 1998	212,214,618	171,735,076	(40,479,542)
June 30, 1999	259,839,319	204,282,788	(55,556,531)

KENTUCKY RETIREMENT SYSTEMS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
For The Year Ended June 30, 1999

Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
0.939	1,121,481,440	0.153
0.923	1,231,383,460	0.196
0.983	1,232,974,460	0.047
1.064	1,234,798,738	(0.179)
1.146	1,321,004,266	(0.421)
1.216	1,330,766,100	(0.704)
0.892	75,686,614	0.147
0.874	88,657,986	0.181
1.144	85,933,543	(0.201)
1.183	87,757,075	(0.294)
1.236	93,130,996	(0.435)
1.272	103,464,123	(0.537)



COUNTY EMPLOYEES RETIREMENT SYSTEM

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)
<u>Non-Hazardous</u>			
June 30, 1994	1,680,890,826	1,748,933,823	68,042,997
June 30, 1995	1,901,448,617	1,935,154,223	33,705,606
June 30, 1996	2,237,808,033	2,083,374,317	(154,433,716)
June 30, 1997	2,750,196,558	2,390,620,093	(359,576,465)
June 30, 1998	3,346,205,003	2,663,946,276	(682,258,727)
June 30, 1999	4,072,227,435	2,991,420,884	(1,080,806,551)
<u>Hazardous</u>			
June 30, 1994	492,463,946	581,410,418	88,946,472
June 30, 1995	552,679,443	668,421,698	115,742,255
June 30, 1996	642,220,505	694,942,156	52,721,651
June 30, 1997	763,829,310	754,308,810	(9,520,500)
June 30, 1998	927,057,492	865,966,626	(61,090,866)
June 30, 1999	1,124,651,486	963,711,775	(160,939,711)

KENTUCKY RETIREMENT SYSTEMS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
For The Year Ended June 30, 1999

Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
0.961	1,050,987,720	0.065
0.983	1,167,668,400	0.029
1.074	1,137,192,560	(0.136)
1.150	1,297,116,204	(0.277)
1.256	1,437,594,574	(0.475)
1.361	1,346,601,939	(0.803)
0.847	183,410,686	0.485
0.827	205,738,571	0.563
0.924	211,638,457	0.249
1.013	225,094,837	(0.042)
1.071	236,180,023	(0.257)
1.167	256,201,726	(0.628)

KENTUCKY RETIREMENT SYSTEMS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
For The Year Ended June 30, 1999

STATE POLICE RETIREMENT SYSTEM

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
June 30, 1994	205,320,509	206,763,310	1,442,801	0.993	36,783,743	0.039
June 30, 1995	217,504,443	241,690,631	24,186,188	0.900	38,955,271	0.621
June 30, 1996	237,515,346	244,540,812	7,025,466	0.971	34,698,957	0.202
June 30, 1997	279,643,275	255,784,758	(23,858,517)	1.093	41,586,211	(0.574)
June 30, 1998	306,318,918	294,427,019	(11,891,899)	1.040	38,727,361	(0.307)
June 30, 1999	357,623,196	314,021,673	(43,601,523)	1.139	40,433,405	(1.078)

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

KERS Non-Hazardous	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Targeted Rate (b)	Unfunded AAL (UAAL) (b-a)
June 30, 1994	<u>80,315,367</u>	<u>1,341,024,064</u>	<u>1,260,708,697</u>
June 30, 1995	102,238,501	1,348,616,865	1,246,378,364
June 30, 1996**	138,382,213	1,127,128,023	988,745,810
June 30, 1997	168,479,973	1,153,952,891	985,472,918
June 30, 1998	210,105,184	1,242,183,993	1,032,078,809
June 30, 1999	283,704,887	1,273,364,800	989,659,913
KERS Hazardous			
June 30, 1994	18,768,166	103,588,614	84,820,448
June 30, 1995	25,053,690	113,557,236	88,503,546
June 30, 1996**	34,263,992	95,266,115	61,002,123
June 30, 1997	42,684,374	120,511,351	77,826,977
June 30, 1998	54,606,786	137,394,162	82,787,376
June 30, 1999	74,579,649	149,158,586	74,578,937

\*\* Asset valuation method was changed from book value to a five year average of market to book values. - June 30, 1996 valuation.

KENTUCKY RETIREMENT SYSTEMS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
For The Year Ended June 30, 1999

Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
0.060	1,121,481,440	1.124
0.076	1,231,383,460	1.012
0.123	1,232,974,460	0.802
0.146	1,234,798,738	0.798
0.169	1,321,004,266	0.781
0.223	1,330,766,100	0.743
0.181	75,686,614	1.121
0.221	88,657,986	0.998
0.360	85,933,543	0.710
0.354	87,757,075	0.887
0.397	93,130,996	0.889
0.500	103,464,123	0.721

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

CERS Non-Hazardous	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Targeted Rate (b)	Unfunded AAL (UAAL) (b-a)
June 30, 1994	65,174,505	1,144,860,603	1,079,686,098
June 30, 1995	82,813,551	1,217,880,223	1,135,066,682
June 30, 1996**	110,203,861	1,011,215,398	901,011,537
June 30, 1997	134,688,096	1,091,055,849	956,367,753
June 30, 1998	168,531,296	1,213,339,747	1,044,808,451
June 30, 1999	231,937,169	1,282,874,286	1,050,937,117
CERS Hazardous			
June 30, 1994	34,340,390	406,278,197	371,937,807
June 30, 1995	42,640,389	462,012,992	419,372,603
June 30, 1996**	57,332,380	375,444,348	318,111,968
June 30, 1997	69,832,681	450,304,608	380,471,927
June 30, 1998	87,055,079	493,286,363	406,231,284
June 30, 1999	114,590,223	518,280,115	403,689,892

\*\* Asset valuation method was changed from book value to a five year average of market to book values. - June 30, 1996 valuation.

KENTUCKY RETIREMENT SYSTEMS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
For The Year Ended June 30, 1999

Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
0.057	1,050,987,720	1.027
0.068	1,167,668,400	0.972
0.109	1,137,192,560	0.792
0.123	1,297,116,204	0.737
0.139	1,437,594,574	0.727
0.180	1,346,601,939	0.780
0.085	183,410,686	2.028
0.092	205,738,571	2.038
0.153	211,638,457	1.503
0.155	225,094,837	1.690
0.176	236,180,023	1.720
0.221	256,201,726	1.576

KENTUCKY RETIREMENT SYSTEMS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
For The Year Ended June 30, 1999

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

<u>SPRS</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Targeted Rate (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
June 30, 1994	17,410,672	110,193,139	92,782,467	0.158	36,783,743	2.522
June 30, 1995	21,200,195	118,995,732	97,795,537	0.178	38,955,271	2.511
June 30, 1996**	27,809,267	101,132,886	73,323,619	0.275	34,698,957	2.113
June 30, 1997	33,876,483	117,361,754	83,485,271	0.289	41,586,211	2.008
June 30, 1998	41,410,500	124,501,076	83,090,576	0.333	38,727,361	2.146
June 30, 1999	53,929,859	125,797,150	71,867,291	0.429	40,433,405	1.777

\*\* Asset valuation method was changed from book value to a five year average of market to book values. - June 30, 1996 valuation.



KENTUCKY RETIREMENT SYSTEMS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
For The Year Ended June 30, 1999

KENTUCKY EMPLOYEES RETIREMENT SYSTEM  
EMPLOYER CONTRIBUTIONS

**NON-HAZARDOUS**

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1994	97,120,293	80,936,678	0.833
June 30, 1995	105,406,424	93,882,993	0.891
June 30, 1996	107,885,265	99,296,569	0.920
June 30, 1997	109,773,608	102,967,907	0.935
June 30, 1998	117,437,279	112,082,480	0.954
June 30, 1999	106,860,518	107,514,778	1.006

**HAZARDOUS**

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1994	13,517,451	10,600,435	0.784
June 30, 1995	15,931,840	13,698,600	0.860
June 30, 1996	15,511,004	14,420,406	0.930
June 30, 1997	15,682,189	15,151,328	0.966
June 30, 1998	16,642,509	15,997,189	0.961
June 30, 1999	19,306,405	19,443,818	1.007

KENTUCKY RETIREMENT SYSTEMS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
For The Year Ended June 30, 1999

COUNTY EMPLOYEES RETIREMENT SYSTEM  
EMPLOYER CONTRIBUTIONS

**NON-HAZARDOUS**

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1994	92,697,117	83,583,039	0.902
June 30, 1995	102,404,519	88,922,215	0.868
June 30, 1996	101,665,015	95,660,478	0.941
June 30, 1997	112,200,552	105,773,743	0.942
June 30, 1998	124,351,931	107,490,256	0.864
June 30, 1999	109,074,757	110,591,016	1.014

**HAZARDOUS**

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1994	33,912,636	30,576,794	0.902
June 30, 1995	37,691,306	32,959,064	0.874
June 30, 1996	38,539,363	35,951,348	0.933
June 30, 1997	42,070,225	39,552,085	0.938
June 30, 1998	44,142,046	42,297,090	0.958
June 30, 1999	46,526,233	48,290,617	1.037

KENTUCKY RETIREMENT SYSTEMS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
For The Year Ended June 30, 1999

STATE POLICE RETIREMENT SYSTEM  
EMPLOYER CONTRIBUTIONS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1994	8,033,569	6,081,367	0.757
June 30, 1995	8,484,458	6,874,327	0.810
June 30, 1996	7,998,110	7,089,072	0.886
June 30, 1997	11,053,615	9,627,692	0.871
June 30, 1998	10,293,733	9,573,742	0.930
June 30, 1999	9,465,460	9,463,188	0.999

KENTUCKY RETIREMENT SYSTEMS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
For The Year Ended June 30, 1999

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND  
EMPLOYER CONTRIBUTIONS

**KERS**  
**NON-HAZARDOUS**

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1994	35,102,369	27,082,676	0.772
June 30, 1995	38,788,579	34,378,689	0.886
June 30, 1996	38,838,695	36,690,182	0.940
June 30, 1997	38,896,160	37,709,736	0.970
June 30, 1998	54,029,074	39,503,545	0.731
June 30, 1999	56,690,636	56,769,539	1.001

**KERS**  
**HAZARDOUS**

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1994	5,608,304	4,370,216	0.779
June 30, 1995	6,613,886	5,632,584	0.852
June 30, 1996	6,410,642	5,931,007	0.930
June 30, 1997	6,546,678	6,278,931	0.960
June 30, 1998	9,341,039	6,632,037	0.710
June 30, 1999	10,760,269	10,773,916	1.001

KENTUCKY RETIREMENT SYSTEMS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
For The Year Ended June 30, 1999

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND  
EMPLOYER CONTRIBUTIONS

**CERS**  
**NON-HAZARDOUS**

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1994	24,803,310	22,277,276	0.898
June 30, 1995	27,556,974	23,773,207	0.863
June 30, 1996	26,837,744	25,234,550	0.940
June 30, 1997	30,611,942	27,504,331	0.898
June 30, 1998	48,303,178	29,271,074	0.606
June 30, 1999	47,939,029	47,901,837	0.999

**CERS**  
**HAZARDOUS**

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1994	11,609,896	10,452,184	0.900
June 30, 1995	13,023,252	11,299,170	0.868
June 30, 1996	13,396,714	12,381,700	0.920
June 30, 1997	14,248,503	13,305,317	0.934
June 30, 1998	20,783,842	14,275,040	0.687
June 30, 1999	23,647,419	23,382,957	0.989

KENTUCKY RETIREMENT SYSTEMS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
For The Year Ended June 30, 1999

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND  
EMPLOYER CONTRIBUTIONS

**SPRS**  
**HAZARDOUS**

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1994	5,201,221	3,767,140	0.724
June 30, 1995	5,535,544	4,463,969	0.806
June 30, 1996	4,930,722	4,603,921	0.930
June 30, 1997	5,909,401	5,125,678	0.867
June 30, 1998	6,808,270	5,120,037	0.752
June 30, 1999	7,237,579	7,251,787	1.002

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
For The Year Ended June 30, 1999

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

PENSION FUNDS

	<u>Non-Hazardous</u>	<u>Hazardous</u>
Valuation Date	June 30, 1999	June 30, 1999
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed	Level Percent Closed
Amortization Period - Each Benefit Improvement	30 years - Commencing with 1990 Valuation	30 years - Commencing with 1990 Valuation
Asset Valuation Method -	Five-year Average of Market to Book Value	Five-year Average of Market to Book Value
Postretirement Benefit Increase	1.6%	1.6%
Actuarial Assumptions:		
Investment Return	8.25%	8.25%
Projected Salary Increases	6.50%	6.50%
Inflation Rate	3.50%	3.50%

POST-EMPLOYMENT HEALTHCARE

	<u>Non-Hazardous</u>	<u>Hazardous</u>
Valuation Date	June 30, 1999	June 30, 1999
Actuarial Cost Method	Targeted Rate	Targeted Rate
Asset Valuation Method - Started with 1996 Valuation	Five-year Average of Market to Book Value	Five-year Average of Market to Book Value
Actuarial Assumptions:		
Investment Return	8.25%	8.25%
Projected Salary Increases	6.50%	6.50%
Inflation Rate	3.50%	3.50%

# *Charles T. Mitchell Company, LLP*

## **Certified Public Accountants**

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BERNADETTE SMITH, C.P.A.  
KIM FIELD, C.P.A.

CHARLES T. MITCHELL, C.P.A.  
CONSULTANT

### REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees  
Kentucky Retirement Systems  
Frankfort, Kentucky

We have audited the general purpose financial statements of Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 1999, and have issued our report thereon dated November 2, 1999.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether Kentucky Retirement Systems' general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kentucky Retirement Systems' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Charles T. Mitchell Co.*

November 2, 1999